



Equity Crowdfunding: The Future of Finance

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Topics

Historical Funding Methods

Equity Crowdfunding
Titles II, III, IV

Examples and Fit

Historical Path - Private to Public

- Family and Friends – Startup funds
- Angel Investing – First small raise with outside parties
- Venture Capital – Series A, B, C...
- Private Equity – Cash flow positive businesses
- Initial Public Offering (IPO)

The Problem

- 1-2 out of every 100 startup companies get VC Funding
 - Of companies funded:
 - 87% have all Caucasian founders
 - 12% Asian American
 - 1% African American
 - 98% of all VC funding goes to males



Historical Path - Business Financing

- Bank loans
- Equipment loans
- SBA loans
- Hard Money loans
- Asset backed loans (i.e. inventory/receivables)
- The Problem –
 - Requires personal guarantees on everything
 - Qualification, time to receiving funds



The Path to Equity Crowdfunding

Non-Equity Crowdfunding

- Indiegogo, Kickstarter
- Reward, donation, pre-order
- Fast, low barrier to entry, product validation
 - The Coolest Cooler
 - GE Testing
- Issue: potential taxable income

The Problem – Investor Perspective

- As of July 24, 2015, Apple closed at \$124.50 per share. Currently, the initial investment of \$990 (1980) would be worth \$313,740, which is 2,520 shares multiplied by \$124.50 per share. The ROI is an immense 31,590%.
- If you had invested \$1,000 during Cisco's IPO (1990), you would have received 55.55 shares. Adjusted for stock splits, today you would hold 16,000 shares, and your investment would be worth \$461,600.
- Alibaba IPO'ed with a market cap of \$168B. To get the same return as Apple did above at it's IPO date, the market cap would have to be \$5,307,120,000,000,000 (yes quintillions or 1000 trillions). Apple's current market cap is about \$866 billion (the largest in the US).
- What does all this mean?
 - Companies are accessing public markets at a later stage (i.e. Unicorns, FB, DBX, etc...)
 - The average public investor historically CAN'T do as well as already wealthy investors who can invest in earlier stage companies

The Solution -Equity Crowdfunding

- JOBS Act of 2012
 - Changes 80 years of securities law
 - Democratizes Finance – 3% to 100%
- Three new paths for business funding
- Any Security –
 - equity, debt, SAFE, convertibles, revenue share, etc...



Title II – Regulation D 506(c)

- General solicitation allowed
- Unlimited raise - accredited investors
- Similar to what existed – just online
- Minimal barrier:
 - No audit requirement
 - Standard disclosures

Title III – Regulation Crowdfunding (Reg CF)

- Up to \$1.07M from everyone
- Funding Portal or Broker-Dealer
- Minimal regulation, no SEC review
- 1 year stock lock-up
- Attestation required (review or audit)
- Minimal ongoing reporting
- Advertise through portals, tombstone elsewhere

Title IV – Regulation A+ (Reg A+)

- Up to \$50M from everyone
- Mini-IPO
- Options: Public, private, hybrid
- Freely tradeable stock
- Attestation Required – SEC Compliance
- Test the waters available
- Advertising – anything w/ clickable link

Benefits to Crowdfunding

- Engage an audience, build an audience
- Crowdfunding is local - digital or geographic
- Equal opportunity for all demographics
- Succeed fast, fail faster than ever (yes that can be a positive)
- Product validation
- Don't answer to the "Suits"
- Set your own terms (but be careful)

Pitfalls to Crowdfunding

- Public failure
- Thinking everyone will want to invest in the best idea EVER
- Set first valuation – hurts talent acquisition
- High valuation can hurt subsequent rounds
- Missing VC connection and expertise
- Thinking its easier to raise \$1,000 from 1,000 people compared to \$100,000 from 10 people.

Who Fits the Mold

- Things people know – Food, beverage, consumer goods
- Businesses with affinity groups – cancer, diabetes, green tech
- Moon shot ideas – big upside attracts investors, within reason
- Large email list or prominent founders
- Committed management team
- Can you inspire or create impulse
- High profile products
- Shark tank alumni

Opportunities in Crowdfunding

- Turn customers to investors
 - Evangelical-investor-customers, the holy trinity
- Get paid to market your business
- Exploit large email list , access portal list
- Sell product and securities together
- Marketing, marketing, marketing

How to Get Started

- Choose a path that fits
 - Stage of business, goals, funding need, budget available
- Don't shoot for the moon when your not ready
- Reg CF and Reg D – Choose your portal
- Reg A+ - Fund on your website or portal
- Build an email list
- Once committed – Go all in

Great Examples

- Reg CF
 - Hackernoon, Sondors Electric Car, Xcraft, Gab AI, BuffBrew, Peli Peli, PT Motion Works (EliptiGo), Bravery Chef Hall, Native Austin Hostel, SharkWheel
- Reg A+ - Staying private
 - StartEngine – A crowdfunding portal that allows investors to participate in the industry
- Reg A+ - Semi-Public
 - Elio Motors – Trades on the OTC, but not a public company. The first successful Reg A+, but has been a bust
- Reg A+ - Public
 - Arcimoto – IPO transaction raises \$19M and lists on NASDAQ
 - Others: FatBurger, Chicken Soup for the Soul, Myomo, iPic, Level Brands
- Reg A+ - Marketing Perspective
 - BrewDog – Don't care about the money, care about the investors. Want thousands of investors, regardless of size.
- Reg CF, to Reg A+ to Potential Public Transaction
 - Hylete – eCommerce consumer brands, builds ambassadors, builds loyalty, went in stages. Included prospectus in shipments.
 - DSTLD – eCommerce consumer brand, shooting for London AIM listing, Builds loyalty, progressive valuation



Questions???